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SUBJECT: TURKEY-GREECE GAS INTERCONNECTOR DELAY

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[IB](#). ANKARA 6403

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This cable was codrafted by Embassy Athens

[11](#). (SBU) SUMMARY: Turkish state pipeline company BOTAS announced a delay in completion of the Turkey-Greece (gas) Interconnector (TGI) until early summer 2007. Although BOTAS claims construction delays on both the Greek and Turkish sides, the head of Greece's natural gas company (DEPA) said Greece was on track to open its link with Turkey in March 2007 and to Italy by the end of 2011. The small "disconnect" on completion timing between the two sides does not appear to be contentious. The Greek Government has made a final decision to place its portion of TGI under the soon-to-be-created gas transit infrastructure holding firm, known as DESFA. Both Turkey and Greece attach great importance to this first symbolic gas pipeline link to European consumers. Timing of arrival of contracted Azeri gas from the South Caucasus Pipeline (SCP) into Turkey to provision a symbolic first Caspian shipment to Europe via Turkey is still uncertain because of technical and political delays (Ref A). Russian pressure is growing on both Turkey and Greece to accept Blue Stream gas for transit to Europe. End Summary.

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BOTAS Talks

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[12](#). (SBU) Quoting BOTAS acting Director Saltuk Duzyol, the Turkish press recently reported delays in opening the TGI to summer 2007 due to construction problems. The article noted that the original estimated construction completion date for the \$300 million, 285 km pipeline would have been November 2006.

[13](#). (SBU) BOTAS Deputy Director Sakir Arikan stated that there had been a projected delay in construction completion of TGI to June 2007, from previous estimates of March. He said the good news was that the golden weld completing the most difficult Sea of Marmara crossing was completed on December 4. Arikan said the bad news was that DEPA and BOTAS faced delays in tendering and completing the Meric River border crossing. He said this had always been identified as the critical path element which caused the overall

delay. He said that BOTAS and DEPA met in Istanbul on December 5 to agree on the modalities of working together on the river border crossing. Arikhan stressed that there were other construction delays - off the critical path - on both the Greek and Turkish portions, but asserted that there was no finger pointing between the two sides.

¶4. (SBU) Arikhan corroborated press accounts that the GOT had to cancel and re-tender the contract for the partially complete 193 km Karacakabey-Ipsal Thrace pipeline portion for contractor non-performance (Bayinder Insaat - Su Tek). He said that this would be re-tendered in one month and this portion would be completed in three-four months. Finally, Arikhan mentioned a short portion through rice fields that had to be expropriated through a special provision of the procurement law to assure timely completion.

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The DEPA Perspective
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¶5. (SBU) DEPA Managing Director Papageorgiou claimed to be sanguine about the delay in the Turkish leg of TGI, but was concerned BOTAS could use the delay to reduce the amount of Azeri gas it would send on to Greece. "A delay until the summer on the Turkish side is ok, but I want to obtain the full 0.25bcm of Azeri gas promised for ¶2007. This is important for all of us for symbolic reasons." Papageorgiou said he had met with SOCAR Deputy Nasirov in Brussels in November, who had said SOCAR could ship Greece up to .3bcm, comfortably above the promised 0.25bcm.

¶6. (SBU) Papageorgiou outlined progress on the Greek side of the Greece-Turkey link. The Italian firm Ghizzoni has already completed construction of the link from Alexandroupolis to the Turkish border, and the contractor for the Komotini-Alexandroupoli leg, the Greek firm Prometheus, along with its Russian partner Streytransgas, is on track to complete its part of the pipeline by March 2007. Gas transiting from Turkey would as of that time be able to enter the

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Greek grid.

¶7. (SBU) Papageorgiou said that the underwater portion of TGI crossing from Greece to Italy would be owned and operated by the Poseidon Corporation, a joint venture of DEPA and Italian Edison. Poseidon has applied to the Greek and Italian regulators, as well as to the EU, for approval of the pipeline's route, as well as for third party access exemptions allowing Poseidon to dictate the supply of gas. Poseidon has requested exemptions for 100% of the capacity, but Papageorgiou expects to get exemptions for between 80 and 90% of the capacity. Papageorgiou said that Banca Intezza is serving as Poseidon's technical advisor. Papageorgiou said current planning indicated the Poseidon portion of the pipeline would be completed and ready to link up with the Italian gas infrastructure "in 2011."

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Creation of DESFA Completed in January
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¶8. (SBU) Papageorgiou noted that the Greek Government had decided that the Greek portion of TGI would fall under the Public Gas Infrastructure Company (DESFA), to be created in January 2007 and which will be the holding company for Greece's entire natural gas transmission system. DESFA's board will be appointed by the Ministry of Development, although it will be a DEPA subsidiary. Now that the GoG has made the decision in support of DESFA, Papageorgiou said, it was essential that it take the steps necessary to maximize Caspian throughput. This includes negotiating long-term contracts with Caspian suppliers and changing Greek law to allow an exemption for the Greek portion of TGI from the standard national tariffs, which Papageorgiou said were uneconomically high for TGI.

¶9. (SBU) COMMENT: The TGI construction delay in Turkey may not be that unexpected for a substantial international pipeline, and the small disconnect between the two companies' estimated completion does not appear to be material or a source of argument or blame. In

any case, the TGI appears to be less contentious than the delays and squabbles generated between parties in the bigger BTC oil pipeline and the on-going SCP Baku-Tbilisi-Erzurum connection for Azeri Shah Deniz gas. BOTAS claims to be ready to accept gas at the Turkish border from SCP, which leaves open the possibility of shipping symbolic levels of Azeri gas to pass through Turkey to Greece in 2007. As reported by Baku and Tbilisi, Russia is pressuring Azerbaijan and Georgia not to deliver gas to Turkey at all or not at contracted prices. Gazprom has also been increasingly vocal and active in Turkey, seeking to promote additional volumes of Russian gas via Blue Stream (I or II) to transship Turkey to Europe.

10. (SBU) COMMENT CONTINUED: Whatever the revised schedule will itself hold is open to question. BOTAS has experienced irregularities in tendering and frequent contractor problems in various pipeline projects, which have also reflected negatively on its financial and management capacity. For his part, DEPA's Director admitted the firm had a somewhat spotty record of on-time construction completion; we believe his 2011 target for TGI completion is optimistic.

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